

**MINUTES OF THE  
CALIFORNIA INFRASTRUCTURE AND  
ECONOMIC DEVELOPMENT BANK**

For the meeting held on  
Thursday, August 21, 2008 – 1:30 p.m.  
1001 I Street – Sierra Hearing Room, 2<sup>nd</sup> Floor  
Sacramento, California 95814

Chairwoman Marjorie Berte called the meeting of the California Infrastructure and Economic Development Bank (I-Bank) Board to order at approximately 1:35 p.m.

**1. Call To Order and Roll Call.**

Marjorie Berte represented the Secretary of the Business, Transportation and Housing Agency. Anne Sheehan represented the Director of the Department of Finance. Francisco Lujano represented the State Treasurer. Rosario Marin, Secretary of the State and Consumer Services Agency, was present. Everett Rice, Governor's Appointee, was present.

The following I-Bank staff members were in attendance: Stan Hazelroth, Roma Cristia-Plant, Diane Cummings, Tara Dunn, and Shelly Renner. Kevin Civale of Straddling, Yocca, Carlson and Rauth also was in attendance representing the I-Bank as legal counsel.

**2. Executive Director's Report.**

Executive Director Stan Hazelroth apprised the Board of the following:

- The I-Bank received notices from COPIA: The American Center for Wine, Food and the Arts (COPIA) and the bond trustee indicating that it did not make its July 30th monthly payment due under the loan agreement related to the conduit bonds issued for COPIA in 2007. Staff has been advised by the trustee that the bond insurer, ACA, and COPIA are working on a plan of action. The I-Bank has not yet received that plan. Payments on the bonds are current, with the next bond payment due in December 2008. Mr. Hazelroth then shared two recent newspaper articles about COPIA that discussed recent events at COPIA and the economic development impact the nonprofit has had on the town of Napa.
- Staff has terminated an investment agreement with MBIA for the debt service reserve funds in connection with the bonds issued in 2005 to leverage the Infrastructure State Revolving Fund (ISRF) Program. The funds were returned on August 14, 2008 with a make-whole payment and are currently invested with the bond trustee in a money market account. The I-Bank's investment committee, along with the I-Bank's investment advisor, Bondlogistix, anticipates that a longer term reinvestment decision for these funds will be considered at a later date in conjunction with the investment of the debt service reserve funds resulting from the upcoming new ISRF Program Bonds.
- The ratings have come out for the next series of ISRF Program Bonds that are on the agenda for consideration with Moody's Investors Service reaffirming the Aa2 rating on the existing and proposed ISRF Program bonds. Moody's cited the, "[P]roactive and strong management team and thorough review of all new loans as well as ongoing surveillance of existing loans," in its ratings review. Fitch Ratings and Standard & Poors have each upgraded their rating for the existing and proposed ISRF Program bonds to

AA+, citing incremental growth and diversification of the loan pool and the program's good track record.

**Consent Items:**

**3. Approve minutes from the meeting held on July 22, 2008.**

Chairwoman Berte asked if there were any questions or comments from the Board or those present regarding the minutes. There being none, Ms. Berte entertained a motion to approve the minutes. Ms. Sheehan moved to approve the minutes and Mr. Rice seconded the motion. The minutes were approved unanimously.

**Action Items:**

**4. Approval of clarification of the rating policy for conduit revenue bond projects.**

Mr. Hazelroth presented a report of staff's discussions and recommendations regarding clarification of the bond ratings policy contained in the Conduit Bond Programs policies and procedures and discussed at the July 22nd meeting. He indicated that the current policy and procedures for conduit bonds issued by the I-Bank were adopted in 1999 pursuant to the I-Bank's statutory requirement to establish procedures for an "expeditious review" of conduit bond applications. The current Conduit Bonds Programs policy and procedures state that the I-Bank's normal policy will be to issue bonds that bear a long-term rating of at least an "A" and/or short-term rating of at least "A-1/P-1" from Moody's and/or Standard & Poor's. Historically, staff interpreted the policy to mean ratings of at least "A" without modifiers, and that the policy also allowed the flexibility for the Board to approve bond rated by Fitch Ratings, Inc. Of the prior conduit bonds approved by the Board, staff determined that bonds were sold with an "A-" rating as early as 2000, and bonds rated only by Fitch were also sold as early as 2000. Additionally, staff confirmed that Fitch was added to conduit bond applications as a ratings selection as early as 2003.

Mr. Hazelroth noted that given the present turmoil in the bond market associated with the sub-prime mortgage crisis and its subsequent impacts to bond credit enhancers, staff recommends amending the policy to reflect the current and past practice of allowing at least an "A-" rating on conduit bonds and to allow Fitch only ratings. Staff is also recommending clarifying the ratings policy, consistent with statutory authority, to reflect that the Board has always had the authority to waive any policy when it deemed appropriate. He stated that staff expects to continue to work on the ratings policy in conjunction with other changes to the conduit bond policies and procedures, and to possibly return to the Board at a later date with new ratings recommendations.

Chairwoman Berte asked for any questions or comments from the Board or public. Hearing none, Chairwoman Berte entertained a motion to approve the clarification of the ratings policy. Ms. Sheehan made the motion and Ms. Marin seconded the motion. The Board unanimously approved the amended resolution.

**5. Adopt resolution approving the sale, issuance and delivery of 501(c)(3) revenue bonds for the American National Red Cross for an amount not to exceed \$42,000,000.**

Ms. Dunn presented a staff report describing the American National Red Cross' request to refund the outstanding bonds previously issued by the I-Bank in 2005 (2005 Bonds) and convert them from auction rate securities (ARS) to variable rate demand bonds secured by a direct-pay letter of credit. She stated that the purpose of the request is to lower the costs of financing, remove the uncertainties associated with the ARS market, and will allow the Red Cross to redeploy its cash liquidity tied up holding the 2005 Bonds in its portfolio. She indicated that the 2005 Bonds were used to reimburse the Red Cross for a portion of the costs used for the construction of its Cal Poly Pomona facility, a facility that serves as the Southern California Headquarters for the Red Cross' biomedical services. Ms. Dunn then introduced Jenna Magan from Orrick, Herrington & Sutcliffe, the bond counsel for the project.

Chairwoman Berte asked for any questions or comments from the Board or public. There being none, she entertained a motion to approve Resolution No. 08-23. Ms. Sheehan moved to approve the resolution and Mr. Rice seconded the motion. The Board unanimously approved the resolution.

**6. Adopt resolution approving the sale, issuance and delivery of 501(c)(3) revenue bonds for the Asian Art Museum Foundation of San Francisco for an amount not to exceed \$125,000,000.**

Ms. Dunn presented a staff report describing the request of the Asian Art Museum Foundation of San Francisco to refund the outstanding bonds previously issued by the I-Bank in 2005 (2005 Bonds) and convert them from variable rate demand bonds insured by MBIA Insurance Corporation to variable rate demand bonds secured by direct-pay letters of credit. She stated that the purpose of the refunding is to lower the costs of financing for the Foundation and mitigate the impact that MBIA's insurance has had on the interest rates of the 2005 Bond. She indicated that the 2005 Bonds were used to refund fixed rate bonds previously issued by the I-Bank in 2000 to finance the cost of the construction of the new Asian Art Museum at the Civic Center in downtown San Francisco, which was completed in March 2003. Ms. Dunn then introduced Nikolai Sklaroff from JP Morgan, the underwriter for the project.

Chairwoman Berte asked for any questions or comments from the Board or public. There being none, she entertained a motion to approve Resolution No. 08-24. Ms. Sheehan made the motion and Ms. Marin seconded the motion. The Board unanimously approved the resolution.

**7. Adopt resolution approving the sale, issuance and delivery of exempt facility bonds for Pacific Gas and Electric Company for an amount not to exceed \$453,550,000.**

Ms. Dunn presented a staff report describing the request of Pacific Gas and Electric Company(PG&E) to assist in refinancing all of the outstanding bonds previously issued by the I-Bank in 2005 (2005 Bonds) as ARS and insured by Ambac. She stated that the purpose of the request is to mitigate the high interest rates caused by the failure of the ARS market. She stated that the 2005 Bonds repaid loans that were used to pay off prior bonds previously issued by the

California Pollution Control Financing Authority (CPCFA Bonds) as a result of PG&E's bankruptcy filing in 2001. She indicated that the proposed bonds are expected to be issued and delivered to PG&E in exchange for the 2005 Bonds that are currently held by PG&E, thereby refinancing the 2005 Bonds and that upon the completion of the exchange of the 2008 Bonds for the 2005 Bonds, the 2005 Bonds would be cancelled. She further explained that PG&E expects to resell the 2008 Bonds on the secondary market as a combination of publicly-offered variable-rate demand bonds and fixed rate demand bonds. Ms. Dunn introduced Sara Rathfon, Manager of Finance for PG&E to answer any questions. Mr. Hazelroth also introduced Kevin Civale, who assisted the I-Bank with legal work on the project.

Chairwoman Berte asked for any questions or comments from the Board or public. There being none, she entertained a motion to approve Resolution No. 08-25. Ms. Sheehan made the motion and Mr. Lujano seconded the motion. The Board unanimously approved the resolution.

**8. Adopt resolution approving the issuance of Infrastructure State Revolving Fund Revenue Bonds, Series 2008 for an amount not to exceed \$55,000,000.**

Ms. Cummings presented a staff report that requested approval to issue the California Infrastructure and Economic Development Bank Infrastructure State Revolving Fund Revenue Bonds, Series 2008, in an amount not to exceed \$55,000,000. She explained that this is the third series of bonds issued to leverage the ISRF Program and that the bonds would enable the I-Bank to continue providing low-cost, long-term financing for a wide variety of local public infrastructure projects without additional State General Fund appropriations. Ms. Cummings gave some background information regarding how the ISRF Program was initially funded and included a summary of how the bonds will be used. She discussed the outstanding loan portfolio and its diversity in project categories, security pledged and geographic locations of the funded projects.

Chairwoman Berte asked for any questions or comments from the Board or public. There being none, she entertained a motion to approve Resolution No. 08-26. Ms. Sheehan moved to approve the amended resolution and Mr. Rice seconded the motion. The Board unanimously approved the resolution.

**Other Business.**

Chairwoman Berte called for any other business; there was none.

**Public Comment.**

Chairwoman Berte called for any public comment; there was none.

**Adjournment.**

Chairwoman Berte declared the meeting adjourned at approximately 2:07 p.m.